A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics

Maisons du Monde: Creating value through an omnichannel approach in the furniture and decoration industry

FRANCISCO FELICÍSSIMO
39924

A Project carried out in the Master in Finance Program, under the supervision of:

Prof[a]. Inês Lopo de Carvalho

January 2021

Abstract

This Work Project consists of an academic simulation of an Investment Committee Paper on Maison du Monde, a French-based company focused on furniture and decoration retail. The proposed leveraged buyout is backed by a value creation strategy focused on internationalization, market share gain and acquisitions. To design such strategy an extensive analysis of the company and the markets where it operates was conducted. Finally, potential exit options and target buyers were identified.

Keywords

Maisons du Monde, Furniture, Decoration, Brick & Mortar, e-Commerce, Equity, Growth, LBO, Private Equity

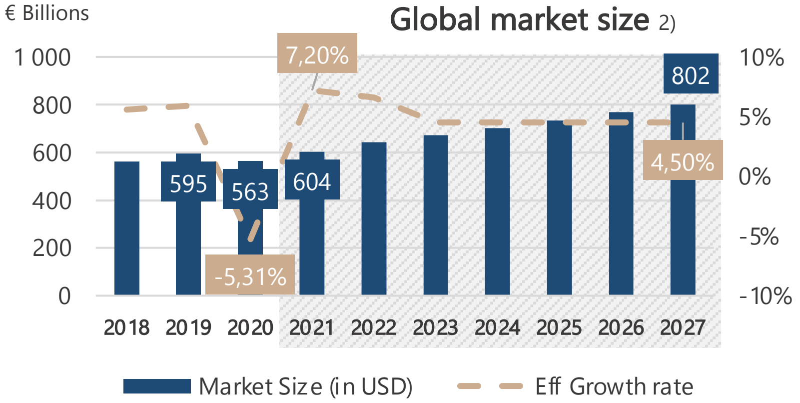
Disclaimer

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

INDUSTRY OVERVIEW – MARKET SIZE & SEGMENTATION

Industry revenue took a hit in 2020 due to Covid-19 pandemic but is expected to recover fast in the upcoming years

Total furniture and decoration market size



The total **furniture and decoration industry's** global revenue was estimated at around **$595 Bn in 2019.** Considering the impact of Covid-19, the same market was estimated at approximately **$563 Bn in 2020**. By 2027, the market is expected to have revenues around **$802 Bn**.

The estimations reflect a decrease of **-5,3% in 2020**, followed by a 7,2% increase after Covid-19. The growth rates are expected to stabilize at ~**4,5%.**

Reaction to recessions

The furniture & decoration industry **is tied to some macroeconomic drivers**, e. g. residential construction and refurbishment. However, in 2008, furniture retail stores' revenue in Europe dropped by ~ 8,70% while the building permits index fell by ~ 27,10% 4), indicating the former to be connected but more resistant.

The industry has an estimated **unlevered beta of 0,75** 1), which compared to other industries is lower than e. g. retail (general) 0.95 or engineering/construction 1.33.

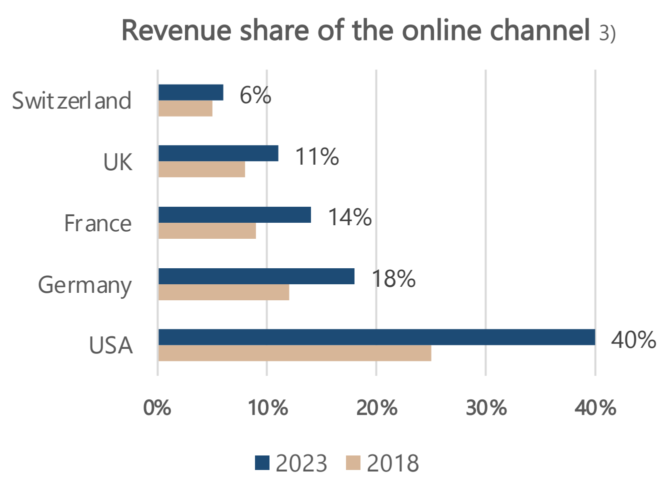
Market segmentation:

1) By geography in Bn USD

€ Billions	2018	Share in 2018	2025	Share in 2025	Revenue CAGR	Share Δ in %
North America	150,0	26,7%	177,1	24,1%	2,40%	-9,7%
Europe	132,0	23,5%	150,6	20,5%	1,90%	-12,8%
Rest of the World	279,7	49,8%	406,9	55,4%	5,11%	11,2%
Total Size	**561,7**		**734,6**			

- The most relevant geographic segments for Maisons du Monde are:
  - **Europe and North America:** jointly accounting for **$282 Bn** in 2018 (**50,2%**), these regions are characterized by slower paced revenue growth in comparison to the rest of the world, namely Asia. Hence, the share on global revenue is expected to decrease to 44,6%.

2) By channel



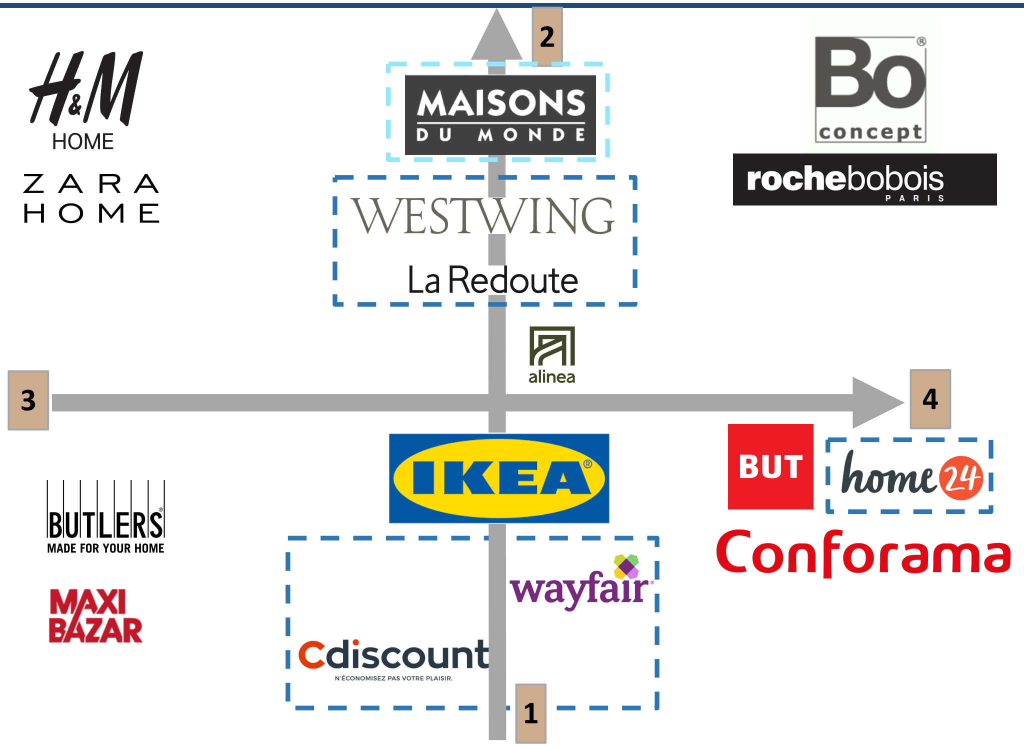
The online channel for the furniture and decoration industry is in different development stages in Europe and the USA:

- **In Europe**, the online revenue shares are low with **Germany** and **France** being expected at **~18%** and **~14%** in 2023.
- **In the USA**, the e-Commerce market in 2023 is expected to deliver **~40%** of revenue, coming from ~25% in 2018.

Notes: 1) Source: (Damodaran Database 2020); 2) Source: Statista. 4) Source: Statista

INDUSTRY OVERVIEW – KEY PLAYERS AND CUSTOMERS

Maisons du Monde is the European leader in the affordable inspirational segment of the Furniture and Decoration industry



1) **Functional** - mass production, small customization.
2) **Inspirational** - original unique pieces.
3) **Decoration** - small complementary pieces to furniture.
4) **Furniture** - sofas, beds, tables, chairs, desks, etc.

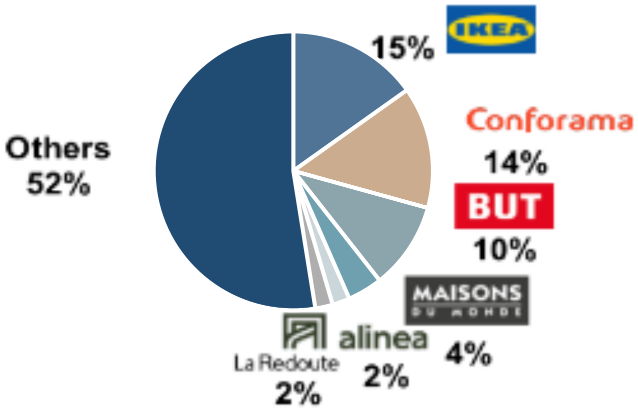
Pure online Player – customer facing activities fully based online

- The rising cost of production along with an **intense overseas competition** is causing consolidation and a shift to the retail side.
- Companies are attempting to **produce more with less** plant space and staff, improving materials supply, and enhancing distribution.

Segmentation

- **MdM's value proposition** sits on its ability to "inspire" customers through industrial-scale structure that delivers quality decoration & furniture items.
- Best way to understand MdM´s positioning in the market is **segmenting the industry** by **design typology** (inspirational vs functional) and by **product range** (decoration vs furniture).
- The **price factor** is already indirectly incorportated in the inspirational vs. functional trade-off relation where those pieces that require lower customization are usually priced cheaper.

French Furniture & Decoration Market [1)]



Customer Analysis

B2C

- **Baby Boomers** continue to represent **largest percentage** of **dollars spent** in the industry; however, **Millennials** make up the **largest percentage of buyers** in the market with a share of around 45%.
- **Generation Z**, who's purchase power is developing, values trends such as **innovation, creativity,** and is willing to pay a premium for **sustainable products**. Additionally, this segment's presence across social networks is impactful with potential to influence other generations' tastes and preferences.

B2B

- Commercial sales make up for around **30% of the furniture market** sales. These transactions are usually in **bulk**, the **price is negotiated.**
- B2B e-Commerce is essential for furniture manufacturers who typically sell to wholesale distributors and large organizations.
- A **flexible value chain** that can address specific B2B customer needs is a **strong competitive advantage** for entering this booming e-Commerce segment and targeting big buyers right away.

Notes: 1) Source: (Maisons du Monde – Capital markets day presentation 2019); 2) Source: OroCommerce Blog, 2019.

COMPANY OVERVIEW – BUSINESS MODEL

Maison du Monde's business model's main characteristic is the complementarity of its digital platform with an efficient store network.

MAISONS DU MONDE

Business model

- MdM creates **original universes for every house division**, using a multi-styling offer with a diverse range of furniture and decoration through a sustainable business model that is generating strong financial growth in both revenues and cash flows.

Product creation & Pricing

- MdM's team of stylists and designers focus in **identifying new trends** and **adapting them to decoration and furniture items**, using appropriate fabrics, materials and finishing's to optimize product design and the materials cost.
- For every product category, it offers items with a **wide range of price points** to reach several customers' budgets.

Suppliers & Supply chain

- The Group usually works with **third party suppliers** in which purchases are made on an **order-by-order basis**, instead of fixed term contracts. It also relies on **trusted partners to manufacture products** in accordance with MdM designs.
- MdM contains a broad range of local and international raw materials manufacturers, distributers and resellers.

Stores & Locations

- MdM stores are typically located in **high-traffic areas**, divided in **shopping- and city centers** and **rental park areas**.
- **All the stores are leased** through a commercial agreements that typically last for 3 years, with chance of renewal.

- New furniture collection once a year
- New decoration collections twice a year
- 19,1M registered customers; 5M active
- Core segment: B2C
- B2B is secondary

Key competitive advantages

- **Replicated business model internationally:** MdM has been successfully scaling its operational structures, using a **standardised store rollout process to all new locations**, always through leasing contracts. Due to the convergence of consumer preferences', MdM is able to use the **same collection in every country.**
- **Omnichannel approach:** Strategy that revolves essentially around the combination of stores and e-commerce. It benefits from the **single business format** across **all stores**, the detailed catalogues in physical and online versions and the investment in **e-Commerce platform** (which is a distribution channel, a showroom for the collections/ universes, a preparation for the store visit). MdM is leader in **e-Commerce** for home decoration and furniture **in France**.
- **Affordable price range:** MdM provides a wide range of original items presented in inspirational universes that are **design oriented and eye- catching for customers**, at an **accessible price**. This culminates in a **solid customer conversion rates** and revenue

Product mix[1]

Decoration	**Decoration** was the initial business focus of MdM containing home textiles, table ware, kitchen ware, mirrors, picture frames, etc. with an average selling price (ASP) of 12€.
Furniture	The **Furniture** business evolved fast within MdM. It includes furniture for the bedroom, living room, kitchen, junior furniture and outdoor furniture. (ASP = 226€)

Note: 1) For a more detailed product mix and SWOT analysis refer to slide 64 and 66.

HISTORICAL FINANCIALS – INCOME STATEMENT

Strong increase in revenue from international stores and e-Commerce activity makes MdM less dependent on its domestic market, France

€ Millions	A2015	A2016	A2017	A2018	A2019	A2020	CAGR 2015-2020
France - B&M	399,4	470,8	516,0	522,0	529,8	443,5	2,1%
International - B&M	181,0	244,6	288,5	342,4	397,2	332,5	12,9%
France – Online	72,6	95,1	112,0	129,5	145,9	208,6	23,5%
International – Online	48,4	74,7	99,3	124,4	158,1	185,0	30,8%
Revenue (B2C)	**701,4**	**885,1**	**1 015,7**	**1 118,2**	**1 231,0**	**1 169,5**	**10,8%**
Revenue (B2B)	22,0	24,6	21,0	24,9	29,7	45,3	15,5%
Revenue Total	**723,4**	**909,7**	**1 036,8**	**1 143,1**	**1 260,8**	**1 214,8**	**10,9%**
Brick & Mortar (B&M) plus attributable B2B							
Total B&M revenue	**598,7**	**735,2**	**821,1**	**883,6**	**949,3**	**806,0**	**6,1%**
Cost of sales	-186,5	-234,4	-267,0	-291,2	-320,1	-277,3	8,3%
Gross Profit	**412,2**	**500,8**	**554,2**	**592,4**	**629,3**	**528,7**	**5,1%**
in %	*68,9%*	*68,1%*	*67,5%*	*67,0%*	*66,3%*	*65,6%*	*-1,0%*
Variable external costs	-48,1	-67,6	-80,0	-89,3	-105,0	-100,4	15,8%
Lease expenses	-85,5	-97,8	-111,4	-117,9	-126,8	-118,8	6,8%
Direct Profit	278,7	335,3	362,8	385,2	397,5	309,4	**2,1%**
in %	*46,5%*	*45,6%*	*44,2%*	*43,6%*	*41,9%*	*38,4%*	*-3,8%*
e-Commerce plus attributable B2B							
Total Online revenue	**124,7**	**174,5**	**215,7**	**259,5**	**311,4**	**408,8**	**26,8%**
Cost of sales	-38,8	-55,6	-70,1	-85,5	-105,0	-140,7	29,4%
Gross Profit	**85,9**	**118,8**	**145,5**	**174,0**	**206,4**	**268,1**	**25,6%**
in %	*68,9%*	*68,1%*	*67,5%*	*67,0%*	*66,3%*	*65,6%*	*-1,0%*
Variable external costs	-28,0	-38,5	-46,5	-53,1	-63,6	-64,4	18,1%
Direct Profit	**57,9**	**80,3**	**99,1**	**120,9**	**142,8**	**203,7**	**28,6%**
in %	*46,4%*	*46,0%*	*45,9%*	*46,6%*	*45,8%*	*49,8%*	*1,4%*
General EBITDA							
Total Direct Profit	**336,5**	**415,7**	**461,9**	**506,1**	**540,3**	**513,2**	**8,8%**
Fixed costs (w/o leases)	-248,4	-296,9	-326,1	-360,4	-389,5	-374,1	8,5%
Adjstments to EBITDA	7,6	8,1	6,2	3,5	0,1	-7,1	N/A
Total EBITDA	**95,7**	**126,9**	**142,0**	**149,2**	**150,9**	**132,0**	**6,6%**
EBITDA Margin	*13,2%*	*13,9%*	*13,7%*	*13,1%*	*12,0%*	*10,9%*	*-3,9%*

1 Revenues

- Following the implementation of the omnichannel strategy and expansion of operations, MdM's total revenue **jumped by 26%, in 2016**, its largest increase.
- MdM's growth results essentially from the continued investments, through new stores, product range expansion, IT systems, improved distribution channels, geographic presence and brand awareness development.
- **54% of MdM's revenues in 2019 were generated in France** (66% in 2015). However, international revenues grew substantially, reducing the group's dependence on its home country activity while tapping new opportunities in Europe.

2 Direct Profit and EBITDA

- Even decreasing, MdM's Gross margin was 40,7% higher than the average peer 3). Moreover, due to equal pricing there is no difference in gross margin between segments.
- The **Direct Profit margin for B&M** decrease essentially relates to fast growing Variable external costs e. g., Transportation costs.
- The e-Commerce growth is clearly favorable as its Direct Profit margin (49,8%) was about 30% higher than the B&M one.
- Finally, the total EBITDA margin decrease reflects an industry trend and the impact on Covid-19, especially on B&M.

Note: 1) For the cost analysis, the B2B segment was allocated to Brick and Mortar (B&M Revenue line) and e-Commerce (Online Revenue line); 2) the adjustments to EBITDA are individually imaterial thus detailed in slide 72; 3) Source: (TIKR Terminal)

HISTORICAL FINANCIALS – BALANCE SHEET

Healthy financial profile allows MdM to take on further initiatives to develop their business rather actively than passively

MAISONS DU MONDE

€ Millions		A2015	A2016	A2017	A2018	A2019	A2020	CAGR 2015-2020
Cash & cash equivalents		76,4	60,3	100,1	57,2	94,5	437,4	41,8%
Inventories	1	102,3	171,1	159,7	241,2	210,8	173,6	11,2%
Receivables	2	45,9	50,1	80,5	83,5	63,4	121,0	21,4%
Other current assets		34,1	38,9	12,0	4,3	21,3	30,9	-1,9%
Non-current assets	3	721,5	750,4	745,7	825,1	1 488,3	1 477,1	15,4%
Total Assets		**980,3**	**1 070,8**	**1 098,1**	**1 211,4**	**1 242,8**	**2 240,1**	**18,0%**
Share capital	4	5,5	146,6	146,6	146,6	146,6	146,6	92,8%
Retained earnings		-24,2	227,4	181,2	248,9	292,8	347,4	
Total Equity		**17,4**	**497,0**	**525,0**	**590,6**	**632,5**	**609,6**	**103,7%**
Trade payables	5	151,8	192,9	238,1	250,9	232,8	319,3	16,0%
Other current liabilities	6	27,4	37,6	20,2	22,5	117,4	331,3	64,6%
Non-current liabilities	6	783,7	343,3	314,7	347,4	895,7	982,2	4,6%
Total Liabilities		**962,9**	**573,8**	**573,0**	**620,8**	**1 245,9**	**1 632,8**	**11,1%**

7 *€ Millions*	A2015	A2016	A2017	A2018	A2019
Convertible bond	394,8 (PEC)[2)]	-	173,6	177 791	182,1
Term loan	321,7 (HY-Bond)	247,3	49,4	49 633	49,8
Revolving Credit Facilities	-2,5	34,2	-1,0	9 275	-0,4
Other borrowings	-	-	-	373	0,9
Finance leases	2,0	3,4	3,2	4 559	-
Deposits and guarantees	0,4	0,4	0,4	471	0,8
Bank overdrafts	1,6	0,6	0,5	615	0,1
Cash and cash equivalents	-76,4	-60,3	-100,1	-57,2	-94,5
Net debt	**642,7**	**225,7**	**125,5**	**185,5**	**138,7**

Notes: 1) See transations of MdM in 2016 on page 65; 2) Preffered Equity Certificate ; 3) See full balance sheet on page 69.

Major Highlights

1. **Inventories** are mostly responsible for development of current assets from 2015 to 2019. Strong increase in inventories can be observed **along the opening of new stores and acquisitions (Modani 2018)**. Cash is subject to operating, investing and financing activities that were relatively volatile within the last 5 years.

2. **Receivables** from **advances paid to suppliers** and **receivables from suppliers** play the major role in this caption followed by receivables from customers. Although the total amount increased along business expansion, MdM **collects its money promptly.**

3. **Non-current assets grew along expansion** strategy of MdM through Capex into store and omnichannel development. Further, acquisitions add up to this position through **increases in Goodwill and PP&E.**

4. Through **merger** of MdM and its earlier parent entity of MdM, Luxco 3, plus **the IPO of MdM**, the shareholder's equity **increased significantly in 2016**. Afterwards, MdM S.A. was the parent entity.[1)]

5. **Trade payables** and social / tax payables are major positions. Position grew along MdM's business development. However, **MdM uses the strong position towards its suppliers to its advantage.**

6. In 2016, MdM did a **refinancing.** From then on, MdM financed itself through long- and short-term bank debt as well as with capital from a convertible bond. From 2017 onwards, **debt levels remained stable.**

7. Evolution of **net debt mirrors dependence on development** of in **6.** described **steady debt levels** after 2017 and **fluctuations in NWC** (seen through cash).

HISTORICAL FINANCIALS – COVID-19 IMPACT

MdM has huge exposure to the consequences of COVID-19 which highly affected their performance throughout 2020

MAISONS DU MONDE

Group's performance in H1 2020

Operating Activities	06/2019	06/2020	%
Revenues	564,0	488,9	-13,3%
France	307,5	252,1	-18,0%
International	256,5	236,8	-7,7%
EBITDA	97,1	68,8	-29,1%
EBIT	30,2	-7,4	
Net Income	-20,4	5,4	

1 H1 2020 **store sales declined 54,0%** with entire store **network gradually closed** for approx. 8-wees. Overall sales in H1 2020 were **only down by 13,3%** due to **strong online activity** (+51,0% in Q2/2020), better than expected performance of stores and continuously strong e-Commerce **demand post-lockdown.**

2 Operational expenses were primarily down through less staffing costs, but **overall costs did not decrease as much as revenues** due to higher logistic costs (French docker strike in Q1 2020) and higher D&A because of store openings in 2019.

3 Due to the **freeze of most supply orders**, inventory draw down had a clearly **positive effect on Operating CF** next to deferred rent payments and renegotiations of payments terms with suppliers.

Add. Figures	06/2019	06/2020
Operating CF	71,5	119,3
Investing CF	-35,2	-24,7
Financing CF	-63,0	248,7
FCFF	-11,4	42,7
Cash	29,9	437,4
Net debt	204,2	105,8

How MdM dealed and deals with Covid-19

PRESERVING LIQUIDITY

4 Undertaken measures to **reinforce liquidity:**

- Drew down immediately post-lockdown entirety of its **two revolving credit facilities of each €150 Mn.**
- Arranged French-state guaranteed term loan in the **amount of €150 Mn** at the beginning of June (1-year revolving maturity for 5 years).
- Negotiated **suspension of net debt leverage covenant** for Senior Credit Facility.
- In sum, the Group generated net cash **inflow of €248,7 Mn in H1 2020.**

OTHER MEASURMENTS

- Group **froze most supply orders** from mid-March to early May to preserve cash and selectively restarted thereafter.
- **Canceled/postponed** significant number of **CAPEX projects** (store openings and IT projects).
- Approx. 85% of staff in Europe placed on temporary unemployment, benefited from governments' support.
- Implementing a substantial OPEX-reduction program focusing on external fee reduction, marketing expenses, cuts and decrease of maintenance costs.
- **Postponement of commercial lease payments** with to the 3rd and 4th quarters for €13,7 Mn.
- **Dividend payment for 2019 was cancellec**

Note:. All information taken out of MdM annual report 2019.

COSTS OF MEASURMENTS

- In 2020 **approx. €2 Mn spent** on implementing social distancing measures.
- **Costs** for **preserving liquidity**, e. g. interest costs for draw down of credit lines, estimated to be **€1,4 Mn in A2020.**
- Large demand from online channels and the surprisingly strong post-lockdown activity with **less people that spent more money**, inventories were drawn down to sub-optimal levels (especially in furniture).
- Amount of cash not efficient but prepared for further lockdowns.

INVESTMENT THESIS – DEAL RATIONAL

Screening through all assessed requirements, MdM offers several starting points for remarkable value creation opportunities

Deal rationale for MdM

	Rational for the deal	Implications
1. Robust financial	➢ Profitable business model with **strong cash flow generation** and **above average** EBITDA-margin. ➢ Lease model allows for **relatively small CAPEX** while international expansion plans are pursued.	➢ Strong cash flow generation allows MdM to **fund its expansion plans by itself, through leases.** Good profitablitiy margins will let the **value** of MdM **increase through every new store** opening. ➢ Strong starting position.
2. New growth opportunities	➢ **Successful internationalization and acquisition** strategy in Europe and North America. ➢ **Expanding customer focus** and customer outreach through B2B and Franchise model.	➢ **Past growth opportunities** were identified and **neatly executed.** ➢ The market of furniture and decoration is not on peak and MdM has **huge untapped potential** in different geographies and customer segment.
3. Experienced people	➢ **Experienced C-management** in retail business, web business, finance, controlling. ➢ Successful **replacement of CFO** in 2019.	➢ Further growth opportunities will **support the management** to continue their already started path. ➢ Strong management that will take **lead during the investment.**
4. Omnichannel approach	➢ Offer in-store, online, catalogue experience. ➢ **3 channels connected**, easy delivery and fast purchase experience for their customers. ➢ Served as a **buffer in Covid-19 lockdowns.**	➢ **Online activity** is expected to **increase significantly.** ➢ Thus, a strong **omnichannel offering** where **different channels are combined** is essential, to add important value to customer experience so that sales are generated.
5. ESG / B2B	➢ Focus on ESG and CSR brought MdM **a reference position in the industry.** ➢ Leverage the B2B segment, increase the number of transactions and value per project.	➢ **Customer movement** is strong towards more sustainability and enironmentally conscious companies. ➢ Having a strong base on which MdM can further build on is **key regarding its competitors.**

INVESTMENT THESIS – VALUE CREATION STRATEGIES

Strategies that focus on international expansion through all sales channels, enable MdM to accelerate on its previous growth

Brick & Mortar

➢ Main goal:

Expand MdM's presence in existing and new countries through store openings and an integrated omnichannel

- **International expansion** of store network is **proven strategy** of MdM to strengthen **and increase market share, exploit growth opportunities** and improve its competitive positioning.
- **Diversify operations geographically** and raise brand awareness for omnichannel offer.
- Store expansion in countries in which MdM is already present and **new store openings in Canada** (Ontario and Quebec), to enter attractive Canadian furniture market with cultural similarities to France.

E-Commerce

➢ Main goal:

Become an e-Commerce leader in existing and new countries and improve a strong competitive positioning

- Enhance omnichannel approach through online services and thus, **increase overall profitability through cost-effective e-Commerce strategy.**
- E-Commerce success is **connected to brand awareness** generated **through wide store network.**
- Further **increase of traffic on our website** and engagement rates through integration of services.
- Simultaneously, **launch e-Commerce** platform in **Canada** and in promising **Polish market** by using existing logistic infrastructure (Germany and USA).

Diversification through Menina Design Group

➢ Main goal:

Diversify MdM's customer base, product offering and international presence through strategic acquisitions

- Offer broader variety of **high quality, unique and high margin products** in furniture segment in new locations, **widening MdM's customer base.**
- Acquisition of Menina Design would help MdM manifest and **rise its market position as a sophisticated furniture and decoration retailer.**
- **Synergies** through use of store network, logistic infrastructure and geographical locations.
- Increasing overall profitability through high margin products of Menina Design.

Supplementary value creation strategies

B2B - Business

➢ Main goal:

Establish MdM as a B2B brand and expand further growth opportunities

- **Increase addressable market** through B2B customers that represent market with high growth opportunities and relatively less competition.
- **Boost operational efficiency** using existing infrastructure and online possibilities.

Environmental, Social and Governance

➢ Main goal:

Improve competitive positioning through rising ESG awareness of stakeholders

- **ESG will affect success** and profitability of business **in the long-term.**
- Through inclusion of all stakeholders, MdM should work on every step in their value creation process to comply with ESG standards to be an ESG leader.

International | Market share | Growth | Stores | Online | Addressable market | Businesses | ESG | Stakeholder | Leader

INVESTMENT THESIS – FUTURE COVID-19 PLAN

Covid-19 is harmful for all physical retail businesses, however, MdM has chance to come out of this with a stronger competitive position

MAISONS DU MONDE

Impact of COVID-19 on furniture industry [1)]

Dimension	Disruption through a pandemic
Scope	Impacts everyone – workforce, suppliers, manufacturers, logistic providers, customers, competitors.
Acceleration	Spreads fast across geographies with severe cascading effects for companies with physical stores.
Period	Duration is unknown and brings uncertainty. Can last up to several months or even several years.
Workforce shortage	May result in quick increase of shortage (workforce) e. g. impact on supply, logistics, store operations.
Coordination with external parties	High degree of coordination necessary with public, government, law enforcement, healthauthorities.
Logistics and Infrastructure	Constrains availability of public and business infrastructure if severity of event increases (esp. across borders)

Notes: 1) Ernst & Young, 2020.

Strategy looking forward

- **Continue international expansion** through a structured store rollout.
- Replicate business model in **countries with similar trends**
- **Online sales** will become more **important** in the furniture industry
- Continue creating omnichannel experience is key to stay ahead.

MAISONS DU MONDE

MENINA DESIGN GROUP

- **Diversify** and strengthen **the product portfolio and customer base** through the acquisition of Menina Design for a stronger business model.
- **Expand addressable market** through **B2B** customers working in a high potential market. **Leveraging existing structure** for operational efficiency.
- **Defend position** as a leader in environmental / social responsibility and **focus on product/supply chain** + safety for customers and employees

COVID-19 adjustments

- Through a well thought internationalization strategy, MdM can still **diversify the regional risk and expand to new markets.**
- As seen, during the lockdowns, the online segments is a protection against COVID risk**.**
- An easy/intuitive online store with technology to help customers choose the right product, will help putting more weight on online sales.
- Covid-19 has shown that companies **with very specific service and product offering** can have added **risk in such situations.**
- Diversified product offerings also in the high-price range could prevent such a development and widens the customer base.
- Through an intensified **focus on B2B business**, MdM **increases its chances to recover faster** and be less dependent on individual customers.
- Professional **investors expect** that Covid-19 could be a **turning point in ESG investing.**
- Views on **risks like climate change or biodiversity loss can be shifted** further increasing awareness.

BUSINESS PLAN – GENERAL OVERVIEW - FINANCIALS

Despite the decrease in Gross margin EBITDA is expected to increase as Fixed Costs will be better diluted due to Online revenue growth

€ Millions	A2015	A2016	A2017	A2018	A2019	A2020	CAGR 2015-2020	E2021	E2022	E2023	E2024	E2025	E2026	CAGR 2020-2026
Total Revenue	723,4	909,7	1 036,8	1 143,1	1 260,8	1 214,8	10,9%	1 376,3	1 531,4	1 716,2	1 957,7	2 126,5	2 261,7	10,9%
Brick & Mortar (B&M) plus attributable B2B														
Total B&M revenue	**598,7**	**735,2**	**821,1**	**883,6**	**949,3**	**806,0**	**6,1%**	**946,6**	**1 038,9**	**1 154,3**	**1 320,1**	**1 403,4**	**1 435,0**	**10,1%**
Cost of sales	-186,5	-234,4	-267,0	-291,2	-320,1	-277,3	8,3%	-332,8	-373,2	-423,7	-495,1	-537,8	-561,9	12,5%
Gross Profit	**412,2**	**500,8**	**554,2**	**592,4**	**629,3**	**528,7**	**5,1%**	**613,8**	**665,7**	**730,6**	**825,0**	**865,5**	**873,0**	**8,7%**
In %	*68,9%*	*68,1%*	*67,5%*	*67,0%*	*66,3%*	*65,6%*	*-1,0%*	*64,8%*	*64,1%*	*63,3%*	*62,5%*	*61,7%*	*60,8%*	**-1,2%**
Variable external cost	-48,1	-67,6	-80,0	-89,3	-105,0	-100,4	15,8%	-108,5	-116,3	-124,7	-134,0	-143,5	-160,6	8,1%
Lease expenses	-85,5	-97,8	-111,4	-117,9	-126,8	-118,8	6,8%	-121,7	-134,5	-149,0	-162,8	-172,5	-176,9	6,9%
Direct Profit	**278,7**	**335,3**	**362,8**	**385,2**	**397,5**	**309,4**	**2,1%**	**383,6**	**414,9**	**456,8**	**528,2**	**549,6**	**535,5**	**9,6%**
In %	*46,5%*	*45,6%*	*44,2%*	*43,6%*	*41,9%*	*38,4%*	*-3,8%*	*40,5%*	*39,9%*	*39,6%*	*40,0%*	*39,2%*	*37,3%*	**-0,5%**
e-Commerce plus attributable B2B														
Total Online revenue	**124,7**	**174,5**	**215,7**	**259,5**	**311,4**	**408,8**	**26,8%**	**429,6**	**492,6**	**561,9**	**637,6**	**723,1**	**826,7**	**12,5%**
Cost of sales	-38,8	-55,6	-70,1	-85,5	-105,0	-140,7	29,4%	-151,1	-177,0	-206,3	-239,2	-277,1	-323,7	14,9%
Gross Profit	**85,9**	**118,8**	**145,5**	**174,0**	**206,4**	**268,1**	**25,6%**	**278,6**	**315,6**	**355,6**	**398,5**	**446,0**	**503,0**	**11,1%**
in %	*68,9%*	*68,1%*	*67,5%*	*67,0%*	*66,3%*	*65,6%*	*-1,0%*	*64,8%*	*64,1%*	*63,3%*	*62,5%*	*61,7%*	*60,8%*	-1,2%
Variable external cost	-28,0	-38,5	-46,5	-53,1	-63,6	-64,4	18,1%	-68,5	-73,9	-79,5	-85,4	-92,2	-92,6	6,2%
Direct Profit	**57,9**	**80,3**	**99,1**	**120,9**	**142,8**	**203,7**	**28,6%**	**210,1**	**241,7**	**276,1**	**313,1**	**353,8**	**410,4**	**12,4%**
in %	*46,4%*	*46,0%*	*45,9%*	*46,6%*	*45,8%*	*49,8%*	*1,4%*	*48,9%*	*49,1%*	*49,1%*	*49,1%*	*48,9%*	*49,6%*	-0,1%
Total EBITDA														
Fixed cost (w/o lease)	-248,4	-296,9	-326,1	-360,4	-389,5	-374,1	8,5%	-401,0	-421,8	-452,8	-492,5	-519,5	-551,7	6,7%
Adjustments	7,6	8,1	6,2	3,5	0,1	-7,1								
Total adjusted EBITDA	**95,7**	**126,9**	**142,0**	**149,2**	**150,9**	**132,0**	**6,6%**	**192,7**	**234,8**	**280,1**	**348,7**	**383,9**	**394,2**	**20,0%**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	*-3,9%*	*14,0%*	*15,3%*	*16,3%*	*17,8%*	*18,1%*	*17,4%*	*8,2%*

- **Revenues**: are expected to be mostly influenced by the Online segment
- **B2B**: The smallest but fastest growing segment. Its expected to account for **7,1% of revenue** by 2026 (3,7% in 2020) by tapping the hospitality industry in France, namely hotels.

- **Brick & Mortar**: by 2026, it will be **63,4% of revenues** (66,4% in 2020); essentially growing through the increased number of stores.
- **e-Commerce:** with **36,6% of revenue** by 2026 (33,7% by 2020) it will double in size due to the larger user base.

- **Cost of sales:** are expected to grow faster than revenue due to increased pressure from suppliers and sustainability concerns.
- **Gross profit:** Will continue to increase as the increase in revenues overcomes the effect of decrease in cost of sales.

- **Fixed Costs:** will be better diluted through increases in online revenue.
- **Lease expenses:** its slower growth will result in its ratio to B&M revenue be 12,6% in 2026 (13,4% in 2019).

Legend: 2026 - Exit year

BUSINESS PLAN – GENERAL OVERVIEW - FINANCIALS

Through operational improvements and NWC stabilization MdM will be able to improve its FCFF generation yearly until exit

MAISONS DU MONDE

Free Cash Flow to Firm plan

€ Millions	A2015	A2016	A2017	A2018	A2019	A2020	CAGR 2015-2020	E2021	E2022	E2023	E2024	E2025	E2026	CAGR 2020-2026
EBITDA Brick & Mortar	78,9	100,8	107,6	106,3	99,7	48,1	-9,4%	101,8	122,1	145,0	188,3	198,1	171,3	23,6%
EBITDA e-Commerce	16,8	26,0	34,4	43,0	51,2	83,9	37,9%	90,9	112,7	135,1	160,4	185,8	222,9	17,7%
EBITDA - Menina Design	0,0	0,0	0,0	0,0	0,0	0,0		2,5	2,9	3,4	4,0	4,7	5,5	N/A
Total Adjusted EBITDA	**95,7**	**126,9**	**142,0**	**149,2**	**150,9**	**132,0**	**6,6%**	**195,2**	**237,8**	**283,6**	**352,8**	**388,6**	**399,8**	**20,3%**
EBITDA Margin	*13,2%*	*13,9%*	*13,7%*	*13,1%*	*12,0%*	*10,9%*	*-3,9%*	*14,2%*	*15,5%*	*16,5%*	*18,0%*	*18,3%*	*17,7%*	*8,4%*
D&A	-25,4	-29,7	-32,0	-36,4	-38,9	-20,6	-4,1%	-33,6	-34,9	-40,4	-43,6	-47,9	-52,2	16,7%
Gross CF	**71,5**	**93,4**	**104,1**	**110,4**	**112,3**	**93,7**	**5,5%**	**139,6**	**167,9**	**199,8**	**246,3**	**271,3**	**280,1**	**20,0%**
- Δ NWC	3,6	-31,9	26,2	-71,7	32,3	66,2	78,7%	-15,7	-2,5	-3,2	-4,2	-5,2	-6,0	N/A
- Capex	-43,9	-52,0	-49,4	-45,8	-60,9	-26,2	-9,8%	-35,1	-64,4	-74,6	-80,1	-70,6	-53,8	12,8%
- Δ Goodwill	0,0	0,0	0,0	-47,3	-6,8	-0,2	N/A	-27,5						
- Δ Intangibles	-5,0	-1,8	-6,2	-17,2	20,7	-3,0	-10,2%							
Free Cash Flow to Firm	**26,2**	**7,7**	**74,7**	**-71,6**	**97,7**	**130,5**	**37,9%**	**61,2**	**101,0**	**122,1**	**162,1**	**195,6**	**220,4**	**9,1%**
As % of EBITDA	*27,4%*	*6,1%*	*52,6%*	*-48,0%*	*64,8%*	*98,9%*	*29,3%*	*31,8%*	*43,0%*	*43,6%*	*46,5%*	*50,9%*	*55,9%*	*-9,1%*

EBITDA

- **Adjusted EBITDA:** is forecasted to grow at a faster pace due to the recovery after Covid-19 and the margin increase on the e-Commerce segment. The total EBITDA margin will increase from 10,9% to 17,7% reflects the higher weight of e-Commerce on the total MdM revenue.

- **Brick & Mortar EBITDA:** the sector's revenue will yield a relatively constant **EBITDA margin averaging 12,6%.**
- **e-Commerce EBITDA:** the margin is expected to increase from **20,5%** in 2020 **to 27,0% in 2026**. This is mainly due to the economies of scale achieved on the fixed costs and investments made, namely through the increase in the conversion rate.

FCFF

- **NWC:** stabilization is resulting in cash outflows. However, it will provide certainty to efficiently leverage MdM.
- **CAPEX:** During this period capex will **average 3,7% of revenue** with a **maximum of 4,6%** in 2023. It includes investments in new stores, IT systems (basis for online growth) and both expansion projects, i.e. Canada and Poland.
- **Goodwill:** has a relevant value in 2021 which relates to the **acquisition of Menina Design.**
- **FCFF:** is expected to grow at a slower pace than before. It will reflect **55,9% of EBITDA** in 2026, compared to 64,8% in 2019.

Legend: 2026 - Exit year

Note: The FCFF in this table does not include some effects, namely the tax shield resulting from the interest payments in the new capital structure.

BUSINESS PLAN – CAPITAL STRUCTURE | SOURCES & USES

Chosen capital structure represents highest debt level possible withouth breaching the Cash Cover covenant in investment period year

Capital Structure Sensitivities

	Structure 1	Structure 2	Structure 3	Structure 4	Structure 5
Term Loan A	0,8x	1,2x	1,0x	0,5x	0,92x
Term Loan B	0,65x	0,75x	1,2x	0,5x	0,5x
Subordinate Note	1,5x	1,5x	1,5x	1,0x	0,6x
Mezzanine	1,0x	1,0x	1,3x	1,0x	1,5x
Equity Contribution	5,4x	4,9x	4,3x	6,3x	5,8x
Total Sources of funds	9,3x	9,3x	9,3x	9,3x	9,3x

- **Structure 5** predicts a leverage multiple of 3,5x. It allows the combination of competitive returns without covenant breaches.
- **Lease liabilities** are not refunded at entry. Hence, when considered the multiple of debt rises to **6,6x**. For comparison, in 2019, about 60% of US PE deals used less than 7x leverage [1].

Structure	Leverage (w/o leases)	Leverage (w\ leases)	MM	IRR
1	4,0x	7,0x	2,9x	19,4%
2	4,5x	7,5x	3,2x	21,2%
3	5,0x	8,0x	3,4x	22,6%
4	3,0x	6,0x	2,7x	18,2%
5	3,5x	6,6x	2,8x	18,6%

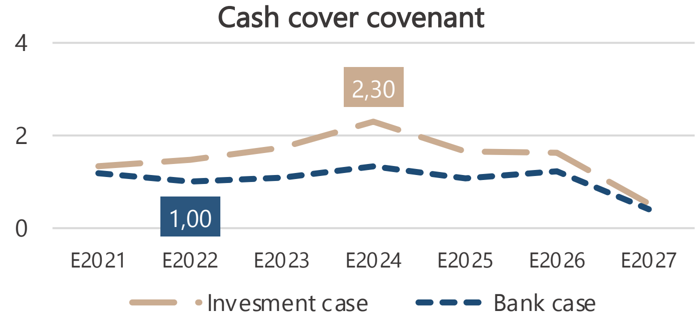
Note: 1) Source: (Bain & Company 2020)

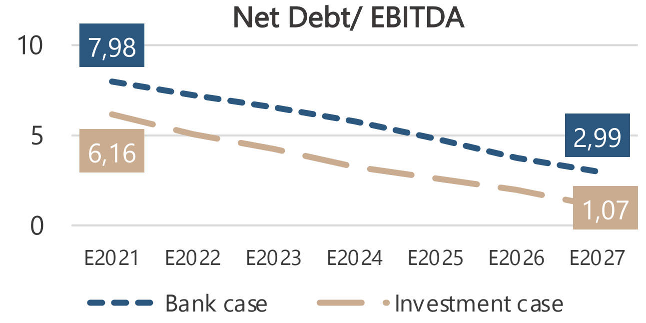
- Out of 5 possible capital structures, **Structure 5 is selected.**
- All 5 would deliver IRR >18,0% and Money Multiples >2,5x. However, **only 4 and 5 are compliant with the cash cover** covenant, showing that structure 5 effectively maximizes debt for the proposed business plan.
- The breaches mostly relate to the ambitious expansion plan in all business segments, which limits the ability to take on debt.

Leases

- As MdM leases all its stores the present value of the outstanding lease expenses are a large liability.
- If leases weren't considered, MdM's Net Debt/EBITDA would be close to zero and Net Debt would be negative in 2025 and 2026, due to the high amount of cash.
- However, not only are leases debt, but they are also a senior tranch, thus also limiting the amount of further senior debt.

Debt Covenants – Bank and Investment case





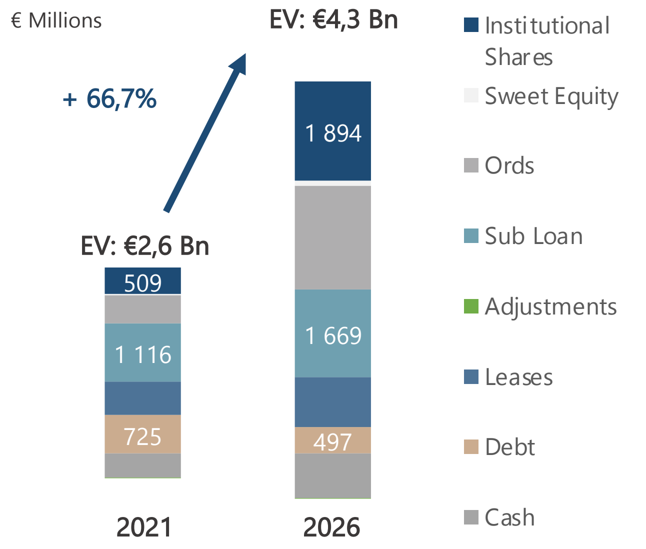
- **Bank case:** on average it is 22% lower than the Investment scenario (28,4% on lowest point).
- Structure 5, at its lowest point with the bank case has a cash cover of 1,001x.
- **Lowest headroom on investment case is 33% in 2022.**

- Even considering the leases, Net Debt/ EBITDA covenant will most likely not be a significant issue as MdM has a **solid cash position** (30,9% of total debt in 2020).
- Nonetheless, the lowest headroom between cases is 29,5%.

EXIT AND RETURNS – LBO MODEL (1/2)

MdM's EV is forecasted to grow by 66,7%. This will provide IRRs of 19,5% and 46,1% for fund and management, respectively

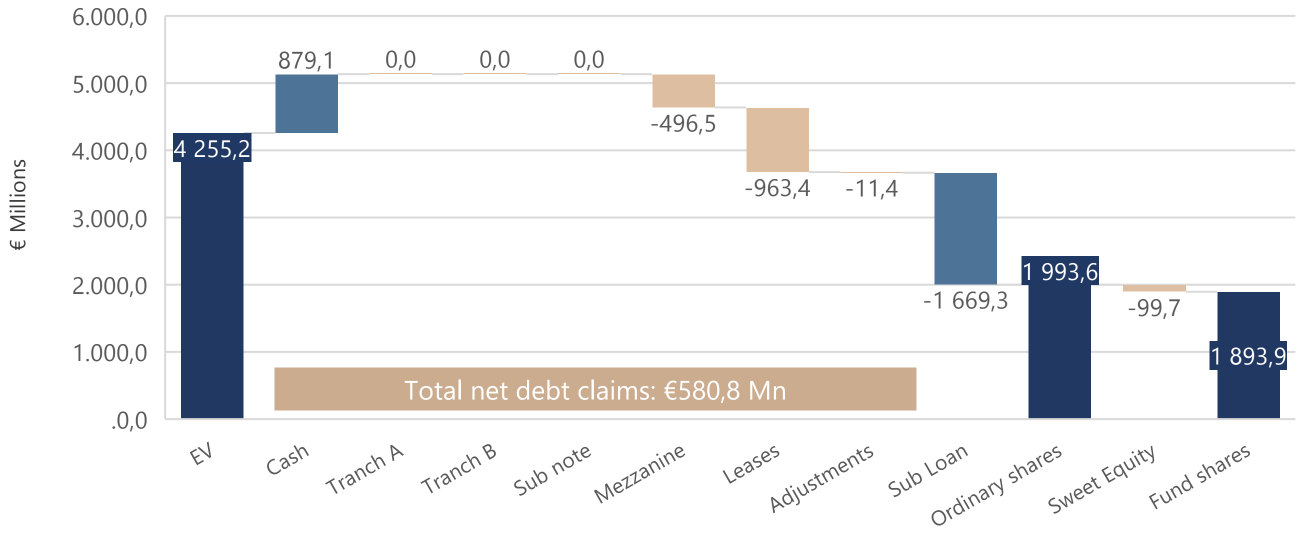
Evolution of EV



- **Enterprise value:** MdM's valuation increase is essentially due to **operational improvements**, namely in EBITDA. Multiple arbitrage was not considered.
- **Equity (in %):** is forecasted to change from **64,7%** to **86,1%** by exit. This result depends on MdM's ability to withstand the injected leverage, as demonstrated in the capital structure.

Note: Both EVs are estimations at the given year, in the event of selling as run-rate EBITDA is used.

Exit waterfall



In % of EV at exit	Net Debt:	Sub Loan:	Sweet Equity:	Fund shares:
	13,7%	39,2%	2,4%	44,8%

- **Leases:** are a very particular aspect of a PE deal in a retail industry. In MdM's case these are forecasted to grow by 49,4% to a value of €963,4 Mn by 2026. However, their weight on EV is expected to decrease from 25,3% in 2021 to 22,8% in 2026.
- **Debt structure and repayment:** by 2026, since both senior debt lines and the subordinated note will have been repaid in 2024 and 2025, only the Mezzanine tranche will be outstanding representing 11,7% of EV, respectively.
- **Exit:** planned exit year is 2026 after a holding period of 6 years, with an exit run-rate EBITDA of about €481,1 Mn and an EBITDA multiple of 8,8x leading to an EV of €4.255 Mn.

Institutional and Management Return

Exit year	E2026
Entry Equity	10,3
Exit Equity	99,8
Management Returns (IRR)	**46,1%**
Management Returns (MM)	**9,7x**
Entry Equity	1 224,9
Exit Equity	3 563,2
Institutional Returns (IRR)	**19,5%**
Institutional Returns (MM)	**2,9x**

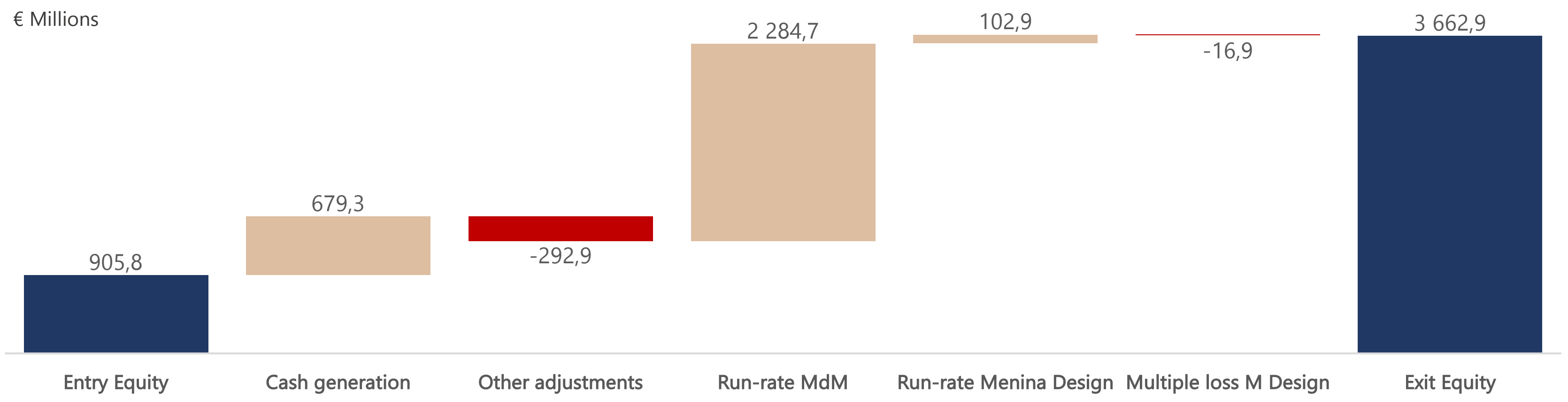
- **Management:** will receive an MM of 9,7x as a reward for the large investment required.
- **Fund returns:** the 2,9x total MM is strong as PE deals in consumer related sectors averaged 2,0x between 2010-18 1).

1) Source: Global Private Equity Report 2020, Bain & Company

EXIT AND RETURNS – VALUE CREATION BREAKDOWN

Growth in EBITDA margin due to strong e-Commerce projections and organic growth are mainly responsible for strong value creation

Value creation breakdown



Return on Entry Equity	0,7x	-0,2x	2,5x	0,1x	-0,02x	3,2x

- **Total value creation:** depends mostly on the **Business Plan's success** MdM's EBITDA growth will account for **80,0% of the generated returns**.
- **Cash Generation:** is a relatively small portion of value with 17,5% since the amount of debt at entry was low due to the amount of Leases.
- **Other adjustments:** account for **-10,3% of the value creation** of which 102,8% are **Lease liabilities**. Even if directly reducing Equity, this form of debt results in a much lighter capital intensity ratio, thus allowing an aggressive expansion strategy and creating value by reducing the required capex of opening stores.

Segmentation of Run-rate EBITDA growth

Maisons du Monde	Value created	Return on Entry Equity	% of Total Value created
Revenue	1 006,3	1,1	35,2%
EBITDA Margin	1 313,2	1,4	46,0%
Run-rate adjustment	-34,8	0,0	-1,2%
Menina Design			
Revenue	63,7	0,07	2,2%
EBITDA Margin	5,2	0,01	0,2%
Run-rate adjustment	34,2	0,04	1,2%
Multiple loss	-16,9	-0,02	-0,6%

- **Maisons du Monde's value creation:**
  - **Revenue growth:** about 70% of this effect results from the **increase in e-Commerce revenue.** Moreover, Online revenue has a much higher impact on EBITDA with a margin 3x larger.
  - **EBITDA margin:** about 62% of this effect relates to the B&M margin increase from 6,0% to 11,% by exit.
  - **Run-rate adjustment:** on exit MdM's ratio of Run-rate/Actual EBITDA will be lower than entry, thus destroying value.
- **Menina Design's value creation:**
  - **Revenue growth:** The extra support MdM can give will allow Menina Design's revenues to increase by 6,3x.
  - **Run-rate adjustmet:** the **strong growth potential** is expected to allow the sell price to create value as the absolute difference between Run-rate and EBITDA will increase from entry to exit.
  - **Multiple loss:** As the acquisition will be done at a **premium** (10,6x EV/EBITDA vs 8,85x for MdM) a loss is expected.

EXIT AND RETURNS – EXIT OPTIONS AND POTENTIAL BUYERS

Exit through secondary sale is the preferred exit strategies. However, interest across all potential exit strategies is possible

MAISONS DU MONDE

Potential options	Upsides	Downsides	Potential buyers	Result
IPO	➢ Through IPO, MdM will be available for **broader investor range**, eligible for **ESG indexes** and **less dependent on single investors**. With good market conditions and strong strategy, IPO is **likely to generate the highest returns**. ➢ **Technological potential** of MdM through online channels and Rhinov could be strong **driver for stock price**, as it is for Wayfair or other pure online players. ➢ Future capital increases easier and faster.	➢ Would most certainly be the most **expensive and longest exit strategy** with the most involved parties. ➢ Process may be distracting to the management team regarding operating the business. ➢ Uncertainty of capital markets is a non-diversifiable risk that imposes threat of choosing wrong timing for an IPO. ➢ Clean exit is less likely, possibility of lock-up agreement.	EURONEXT	
Secondary Sale	➢ Usually, the **fastest, easiest and cleaner** exit option. ➢ MdM might be an attractive target for a fund or joint venture of funds that look for a company with strong cash flows and further growth opportunities. ➢ Secondary PE activity is at a high level due to the lack of good targets and the big amount of dry powder. ($1,5 Tn.[1])	➢ The **expected deal size** of MdM at the exit year of 2026 might be **too big for only one potential buyer.** ➢ Additionally, strong interest from strategic buyers might lead to higher entry multiples than the interested PE's would be willing to pay.	KKR The Carlyle Group – Global Alternative Asset Management BainCapital 3i	
Strategic Sale	➢ Industry has several big players in which MdM's business model would fit perfectly. ➢ Generally, **strategic sale delivers higher EBITDA multiples**. ➢ Potential **synergies** could attract strategic buyers. ➢ Potential buyer could be strong player from Asia/America trying to buy **exposure into European Furniture industry** or strong B&M player without capable e-Commerce channel.	➢ Main challenge is to find a buyer that has the financial resources to buy MdM. ➢ Additionally, due to MdM's huge store network in Europe, every possible transaction will most likely be subjected to **approval by Competition and Markets authority**. ➢ Moreover, cooperation of management is unlikely. ➢ Strategic sales are often paid in stock instead of cash.	Ashley HomeStore IKEA XXXLutz	

Notes: 1) Source: Pitchbook, 2020, "What is dry powder in private equity?.

INVESTMENT COMMITTEE PAPER

Maisons du Monde: Creating value through an omnichannel approach in the furniture and decoration industry

JANUARY 2021
MSc in Finance

Individual Contribution

Mentorship
Profª. Inês Lopo de Carvalho

Student

Francisco Felicíssimo 39924

BUSINESS PLAN – GENERAL OVERVIEW

Both revenue segments are expected to have strong performances despite the risks of each investment strategy

MAISONS DU MONDE

Key drivers of revenue *(As of 2026)*

Brick & Mortar	Online
Number of stores: 525 (+169)	**Number of users:** 4,9 Mn (+81,4%)
×	×
Revenue per store: €2,54 Mn (+19,8%)	**Revenue per user:** €137,6 (-6,3%)
=	=
Total Revenue: €1 333,7 Mn (+71,9%)	**Total Revenue:** €768,4 Mn (+95,2%)

Highlight of results

	Brick & Mortar		Online	
	Entry	**Exit**	Entry	**Exit**
EBITDA Margin	6,0%	**11,9%**	20,5%	**27,0%**
EBITDA	€48,1 Mn	**€171,3 Mn**	€83,9 Mn	**€222,9 Mn**

	Entry	**Exit**
FCF	€130,5 Mn	**€224,0 Mn**

Key areas of focus

Store network expansion, by continuing levering MdM's experience on internationalization and store rollout

Increasing Number of visitors, by focusing on advertising and using the stores as brand awareness developers

Revenue per store maximization, continue improving efficiency until revenue per store to match best years

Optimize the conversion rate, by fully integrating Rhinov to all countries and ensuring the quality of service in online segment

Key risks

Store ramp-up period risk. Could even result in not achieving Break-even revenues in less than 3 years

Pure-online players' competition may mean lower than expected increase in Number of users

Logistics for extra stores. Could mean a too high increase in Capex or Fixed costs making expansion unprofitable in the short-term

Conversion rate increase risk. Consumer masses may not react to Rhinov's technology as well as early adopters

BUSINESS PLAN – E-COMMERCE

Online platofrm is the fastest growing segment in the company

Timing of the strategy

Covid is expected to have long lasting effects on e-Commerce

- **During the pandemic:** this channel had a boost across almost every sector of the economy.
- **Post-pandemic:** the trend of online shopping is quite strong, and we observe an increasingly amount of players focusing on online commerce only. Allowing them to have a leaner cost structure and practice competitive prices.

MdM needs to tackle this opportunity/challenge to leverage its leadership position.

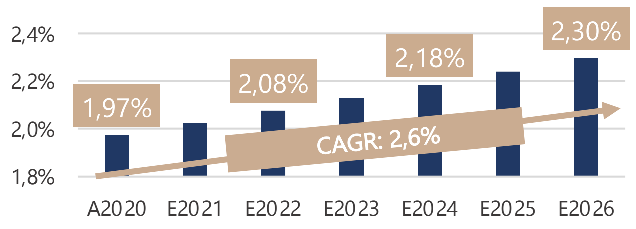
Importance

- Online channel is expected to have crucial importance for the group requiring the creation of a supportive strategy around it, with the goal of **leverage the platform** so that we target the **right customer**, at the **right time** by offering the **right product**, MdM will simultaneously focus on:

1 Digital Strategy

Use data analytics and marketing tools with the ultimate goal of increasing the Number of yearly website visitors

Conversion rate, 2020-2026



2 Rhinov

Have a distinctive complementary service that is usefull to customers thus improving the conversion rate. It will become a relevant competitive advantage.

Both topics' ultimate contribution will be through the conversion rate improvement. A 1% increase in the conv rate leads to a € 304 Mn increase in revenue (2026).

Performance Forecast

- **12 Countries where MdM already operates in, forecasted jointly**

Revenues = Average Revenue p\ user X Users

ARPU: according to a Statista report *(1)* the trend is to see this driver decrease throughout the investment period. Following this, the MdM's ARPU will go from €146,9 in 2020 to €137,6 in 2026. This decrease is driven by the increasing weight of decoration items, which inspite of being priced cheaply have higher margins.

Number of Users = Visitors per year X Conversion rate

Visitors: Assumed to growth at a CAGR of 9,9% throughout the investment period.
Conversion Rate: Ability to turn visitors into actual buyers. Expected to go from 1,7% to 2,3% matching the average for the home decor & furnishings industry *(2)*

- **Canada and Poland**

Revenues = Size of e-Commerce for furniture & decor X Market Share

Top down approach:

- Began by researching region's GDP. Then the furniture market size as % of GPD and finally the size of e-Commerce referent to furniture and decorations *(3)*.
- Assumed an entry market share of 0,5% growing until 1,75% by 2026. This approach was done considering a common market entry process and the development of the market share in a conservative way.

Sources: 1) (Statista August 2020); 2) (Smart insights 2020);

BUSINESS PLAN – CAPITAL STRUCTURE | SOURCES & USES

Proposed deal should with leverage of 3,6x EBITDA and equity of 5,5x EBITDA which would yield to the highest Money Multiple

MAISONS DU MONDE

Leverage determinents

- Maison du Monde is leasing its stores. This is a disadvantage due to the fact that MdM does not own the stores and could use it as collateral.
- Additionally, significant store leases are reducing MdMs EBITDA.

Amount of secured Senior debt (Term Loan A and Term Loan B) is therefore limited. Thus, need for debt is fulfilled through a subordinate note as junior debt.

- However, diversified markets, stable NWC development and high growth in e-Commerce business allow for EBITDA debt multiple of 3,6x.

Sources	In € Th	X EBITDA	%		Uses	In € Th	%
Term Loan A	213 057	1,0x	10.9%		MdM Equity		
Term Loan B	106 529	0,5x	5.5%		Net debt		
Total Senior debt	**319 586**	**1,50x**	**15,8%**		**Enterprise value**	**1 849 338**	
Subordinate note	127 834	0,6x	6.6%		Due Diligence	27 740	1.5%
Mezzanine	319 586	1,5x	16.4%		Arrangement	14 795	0.8%
Total debt	**767 007**	**3,6x**	**39.4%**		Invest. Bank	18 493	1.0%
Fixed return instr.	985 401	4,6x	50.6%		Financing	19 814	1.1%
Institutional Inv.	186 453	0,9x	95.0%		Legal	12 945	0.7%
Sweet Equity	9 813	0,0x	5.0%		Other	5 548	0.3%
Total Equity	**1 181 667**	**5,5x**	**60.6%**		**Total Fees**	**99 336**	**5.4%**
Total Sources	**1 948 674**	**9,1x**	**100,%**		**Total Uses**	**1 948 674**	**100%**

Background information

- **Sources:**
  - Total Source of Funds exists out of an equity contribution of 5,5x EBITDA (€1.181,7 Mn.) and leverage of 3,6x EBITDA (€767,0 Mn.)
  - Total debt is composed of two Senior debt positions, Term Loan A (€213,0 Mn.) and Term Loan B (€106,5 Mn.), of Junior debt, Subordinate note (€127,8 Mn.) and Mezzanine debt (€319,6 Mn.)
  - Equity strip consists of a Fixed Return instrument (€985,4 Mn.) and ordinary equity of €196,3 Mn.). Management sweet equity amounts to €9,8 Mn.
  - Term Loan A:
    - Interest rate: 4,69% ; Amortization ; Repayment until end 2025.
  - Term Loan B:
    - Interest rate: 4,94% ; Bullet ; Repayment in 2026.
  - Subordinate Note:
    - Interest rate: 7,80% ; Bullet ; Repayment in 2027.
  - Mezzanine:
    - PIK (Paid in Kind) - Accruing rate 7,78% ; Cash interest rate: 6,50% ; Repayment in 2028.
- **Uses:**
  - Total Use of funds that amount for €1.948,7 Mn in total, are used for the EV of MdM (€1.849,4 Mn) that is calculated with EBITDA multiple of 8,7x which is further explained in the valuation section.
  - Furthermore, €91,7 Mn. are spent on fees before and after the deal closing and €5,5 Mn. for other Fees.

BUSINESS PLAN – CAPITAL STRUCTURE | MANAGEMENT PACKAGE

5% of total proceeds for twice their annual salary and CEO's equity rollover, yield management a 9.7x money multiple

MAISONS DU MONDE

The current management team has proven to be a vital component to the equity growth in the past. Given their knowledge of the operating model and experience within the industry and expansion, the management team is an asset that should be kept.

Management Compensation Package

- The **PE fund** will be granted **95%** of the **ordinary equity.**
- The remaining **5%** will be assigned as **sweet equity** for the **upper management**[1] (all the chief officers relevant for the implementation of the investment thesis). Equity is the biggest motivator given the company is performing well and is expected to grow maximizing the management upside return.

- **Sweet Equity:**
  - Each chief officer, except the CEO, is expected to invest twice their yearly compensation (including the fix and variable compensations). Totaling an amount of € 10,257 Mn.
  - The CEO is the only member of management with a significant stake in the company, holding 0,6% of the company, valued at a total of **€3,82 Mn.** To avoid an earlier significant cash-in, the CEO should reinvest the total proceeds from the acquisition (after tax).

- **Material Adverse Change Clause**
  - Given the high materiality of the amount invested (for the management's absolute pay level), a clause will be introduced to avoid equity dilution in case of certain systematic events.

Exit year	E2021	E2022	E2023	E2024	E2025	E2026	E2027	E2028
Entry Equity	10,3	10,3	10,3	10,3	10,3	10,3	10,3	10,3
Exit Equity	26,8	37,2	50,0	65,2	81,5	99,7	67,4	74,9
Management Returns (IRR)	**161,3%**	**90,3%**	**69,6%**	**58,8%**	**51,4%**	**46,1%**	**30,9%**	**28,2%**
Management Returns (MM)	2,6x	3,6x	4,9x	6,4x	8,0x	9,7x	6,6x	7,3x

- In case the exit year is delayed, management is not expected to see its returns reduced by compound interest effect of the FRI. A clause will be added to guarantee that management equity is not diluted.
- The 5% of sweet equity represents 6,0x top management initial equity commitment.

		Money Multiple				
		2024	2025	2026	2027	2028
Exit Multiple	8,3x	8,4x	8,4x	8,4x	8,4x	8,4x
	8,5x	8,9x	8,9x	8,9x	8,9x	8,9x
	8,8x	9,7x	9,7x	9,7x	9,7x	9,7x
	8,9x	9,8x	9,8x	9,8x	9,8x	9,8x
	9,1x	10,3x	10,3x	10,3x	10,3x	10,3x

		IRR				
		2024	2025	2026	2027	2028
Exit Multiple	8,3x	70%	53%	43%	36%	31%
	8,5x	73%	55%	44%	37%	31%
	8,8x	77%	58%	46,1%	38%	33%
	8,9x	77%	58%	46%	39%	33%
	9,1x	79%	59%	48%	40%	34%

- The management team is expected to receive a return of **€99,759 Mn** corresponding to a money multiple of **9,7x** and an **IRR of 46,1%**. This is large return, nevertheless it is a feasible reward as the investment amount required at entry is individually material. Hence, it is a key point of the deal.
- The CEO alone is expected to cash in **€27,83 Mn** with an initial investment of €2,86 Mn.

Notes: See slide 89 in appendix for a detailed disclosure of the upper management team and their equity commitment.

BUSINESS PLAN – CAPITAL STRUCTURE | MANAGEMENT PACKAGE

Participation of 5% comes with investment of twice their annual salary

MAISONS DU MONDE

Status Quo

- MdM employees hold less than **3% group´s equity**, apart from CEO just some of the board of directors members hold a significative amount.
- Even though some chief officers importance for the implementation of the investment thesis is low, it should exist some sort of reward from motivational purposes and alignment of interests.
- The CEO salary was directly taken from the annual report and amounts to € 1,21 Mn, average industry salaries were used to calculate the remaining chiefs salaries proportionally to that of the CEO.

Name	Position	Compensation (2019)	Sweet Equity	% Sweet Equity	Return	Multiple
Julie Walbaum	CEO	1210	2420	24,66%	25721	10,6x
Eric Bosmans	CFO	705	1411	14,38%	14994	10,6x
Yohann Catherine	Chief Store Operations Officer	653	1305	13,30%	13872	10,6x
Guilllaume Apostoly	Chief Information Officer	653	1305	13,30%	13872	10,6x
Julien Vigoroux	Chief Supply Chain Officer	366	731	7,45%	7774	10,6x
Marie-Laure Cassé	Chief Digital & Marketing Officer	367	734	7,48%	7805	10,6x
Catherine Filoche	Chief B2B	587	1175	11,97%	12488	10,6x
Sophie Mouhieddine	Chief HR Officer	366	732	7,46%	7777	10,6x
Total			**9813**	**100%**	**104301**	

Compensation Package

Standard

- **Base salary:** will remain in place.
- **Benefits:** Negotiate car, pension and health coverage benefits early on, so that they can be set efficently tax wise, creating a win win scenario and avoiding employee annoyance later on.

Sweet Equity

- **5%:** given the discrepancy between MdM market value and management compensation, any percentage above the 5% would generate unreasonble returns in a base case.
- **Materiality:** Each employee was expected invest twice their annual salary, the net wealth of each member should be considered so that the amount commited doesn't create a psycological burden.

Roll-Over

- **CEO:** Julie holds a position of € 3,82 Mn in MdM. The fund will suggest that her reinvestests at least 50% of the net proceeds after tax.

CEO is likely to want to reinvest additional proceeds given the strenght and feasibility of the investment thesis.

Outcomes

Outstanding performance

- In case management seeks for external advice in this field, it is likely that some sort of compensation for higher performance is included. The fund is able to apply an equity ratchet for this case scenario.

Poor Perfomance

- To protect against systematic crisis and to keep the management team motivated and capitalize on their synergies, we are open to renegotiate the management incentive packages and performance benchmarks.
- Material Adverse Change Clause

VALUATION – Methodology & Football Field

The 3 main methods of valuation allow a complementary benchmark and highlight provide grounding for MdM's multiples

MAISONS DU MONDE

Valuation Methodology

Industry Peers

- ➢ Focuses on how the industry is performing and how the company should be valued in accordance with its comparable firms. Hence, several multiples were computed: **EV/EBITDA, P/E** and **EV/EBIT**
- To obtain them, **11 comparable companies** were selected based on their core business sector (furniture & decoration), market capitalization, product offering, business model and key financials.
- The multiples' analysis was performed over a cycle of 12 years (2008 - 2020) to better understand the impact of a full economic cycle. As expected, **P/E multiple reflects a more volatile cycle** whereas **EV/EBITDA shows a smoother cycle**. **EV/EBIT** follows a relatively similar cycle as the former multiple, although it **had a sharp increase** over the last 4 years.

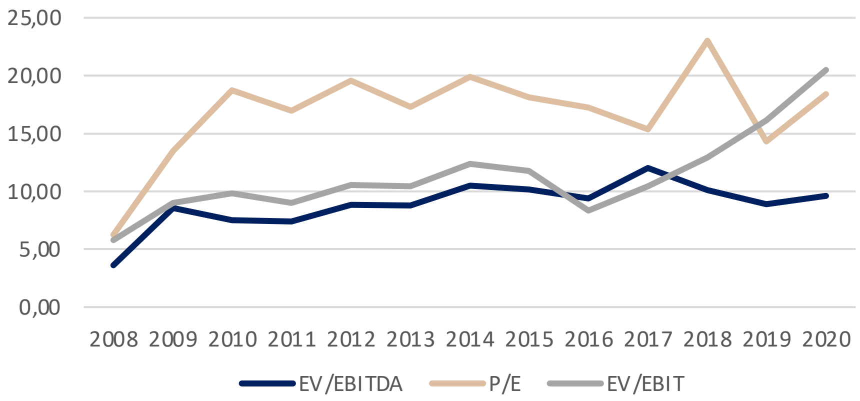
Precedent Transactions

- ➢ To assess the purchase price of previous similar deals within the Furniture industry, details on **7 past transactions** over the last 4 years (2016-2019), were considered. In order to better understand the overall sector, additional data from all industry transactions since 2010 was considered.
- The specific deals were selected based on core business, being in the furniture and decoration industry, product line, business model, geography as well as the implicit Enterprise Value from each deal.

DCF Model

- ➢ It estimates an intrinsic value, based on the company's expected future cash flows, discounted to the present moment.
- The **discount rate (WACC)** was computed using both MdM's financials and Damodaran's database as a benchmark for the industry.
- The exit is assumed to be in 2026, 6 years after investment in 2021.
- For the **Terminal Value** computation, a **cash flow multiple** from the furniture and decoration sector was considered, being 6,87x.

Multiples Cycle



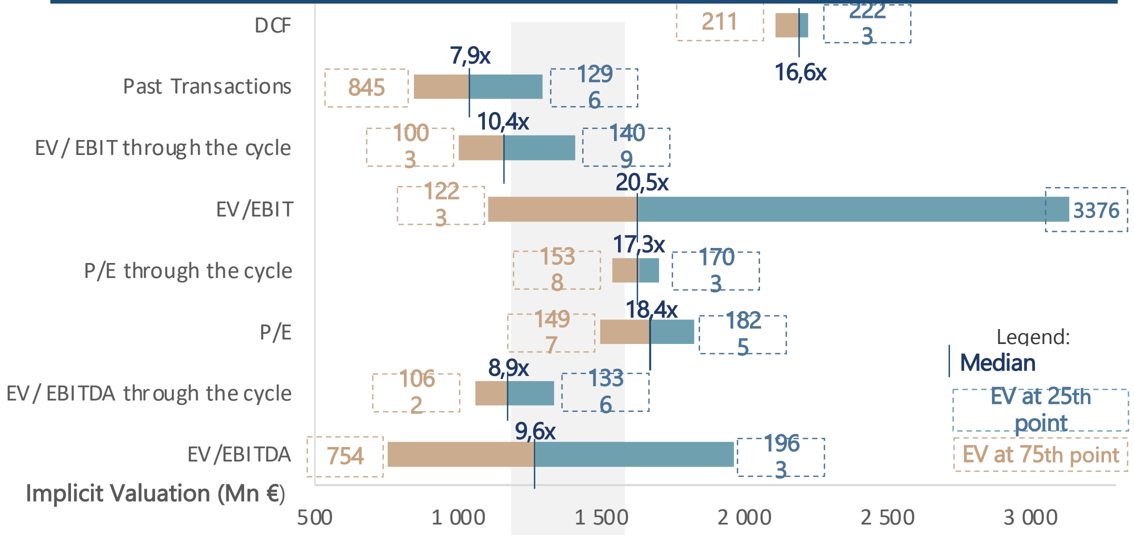
Median Multiple

EV/EBITDA 8,9x

P/E 17,3x

EV/EBIT 10,4x

Football Field



Run-Rate EBITDA 2020 213,1 Mn ✖ Median EV/ EBITDA 10,4x = Enterprise Value € 2.222,2 Mn

DUE DILIGENCE

Need for a contingency plan due to the volatile nature of some revenue drivers. Draw Menina Design integration process.

Commercial

Area	Key Points	Red Flags	Providers	Importance
E-commerce	➢ Assess whether major disruptions on e-Commerce are likely to happen and to what extent will impact MdM. ➢ Scenario analysis for different ARPU's and conversion rate levels, focus on the worst-case scenario. ➢ Revise assumptions regarding website visitors.	➢ Conversion rates and ARPU are volatile captions, hard to estimate, which could potentially create large **swings** on **the forecasted returns.**	BAIN & COMPANY	
Brick & Mortar	➢ Assess the **risk of substitution** from competitors with high quality standards and practicing cheaper prices. ➢ Test **entry barriers** for the Canadian market and build a contingency plan. ➢ Evaluate store opening plan, namely regarding strategic locations for new stores and analyze store footfall.	➢ Economic uncertainty can **drive away demand** from MdM towards retailers focusing on lower budget customers (e.g. most pure online players). ➢ Lower profitability of strategic city center stores is not completely offset by the brand awareness it generates.	BCG	
Market Size	➢ Test the growth drivers and assumptions to different levels of market growth. ➢ Develop deeper understanding of the **market share MdM** is expected to capture in each market.	➢ High investment in the Canadian fragmented market, where creating **brand awareness** can be **difficult**.	Deloitte.	
Customer & Marketing	➢ Digital Strategy implementation across social networks. ➢ Sharpen data analytics tools to efficiently target the desired population segments in each region. ➢ Deeply assess customer behaviour an loyalty to shape a strategy for market share capturing in Canada.	➢ Too much data for MdM to handle by in-house, could result in the need for added investments to ensure feasibility of strategies. ➢ Failure in tailoring the marketing strategy to each region.	McKinsey Digital	

DUE DILIGENCE

Validation of recurrency of EBITDA adjustments. Test Poland and Canada market share assumptions.

	Area	Key Points	Red Flags	Providers	Importance
Operational	**Ramp-Up period and other**	➢ Verification of the assumed **ramp-up period for new locations.** Test reality of assumptions. ➢ Scenario analysis for store operations development and create a **performance benchmark** to revise each store's continuity during the investment period. ➢ Validate that EBITDA **adjustments are not recurrent**.	➢ Higher ramp-up period than expected can delay the cash flow causing financial pressure. ➢ Mistake underperforming stores due still being in the ramp-up process.	pwc	
Operational	**Supply Chain**	➢ **Design integration process** for the expansion to Canada and Poland so that the current supply chain could be leveraged before committing to incremental costs.	➢ The value creation predicted from the expansion strategy can be offset if unexpected logistic costs arise.		
Financial	**Menina Design**	➢ Independent Menina Design valuation to test price. ➢ Unbiased **analysis** of hypothesis on growth, integration and how **synergies** will be created. ➢ Assess the recurrency of 2019 revenue drop.	➢ **Difficult to scale** high end customized pieces. ➢ High premium can offset the benefit from synergies.		
Financial	**Expansion Forecast**	➢ Validate market share assumptions in Canada's and Poland's financial forecast.	➢ Achieved market share may differ too much from assumed, reducing profitability.	BAIN & COMPANY	
Financial	**Run-Rate**	➢ Test the run-rate EBITDA to EBITDA ratio. ➢ Assess the run-rate EBITDA, to understand the output of a potential negotiation scenario.	➢ Future strategic buyer not recognizing MdM potential value, hurting MdM exit valuation, if the difference is to big.		
Financial	**Expenses/ Liabilities**	➢ **Cost allocation** to stores vs e-Commerce platform, especially Fixed costs. ➢ Scan the **efficiency** current store **leasing model, namely contract length, interest rates, etc.** ➢ Compare the marginal increase in lease expenses to the marginal increase in EBITDA. To strengthen certainty of value creation through Brick & Mortar.	➢ Potentially untruthful segment financial analysis due to costs misallocation. ➢ One-time expenses can become recurrent and harm profitability. ➢ LBO debt could result in drastic increase in lease interest for new stores harming EBITDA.	McKinsey & Company	

DUE DILIGENCE

Revise management compensation and ensure interest alignment. Identify potential large investors for Maisons du Monde.

	Area	Key Points	Red Flags	Providers	Importance
Human Resources	Management Team	➢ Revise the fit of each member of the management team in the investment thesis. ➢ Define scope of the material adverse change clause. ➢ Revise the compensation schemes for the best alignment of interests between the fund and management.	➢ The success of the investment thesis might be too heavily **dependent** on the current **management team**. ➢ The existence of golden parachutes across the management team should be revised.	MERCER	
	Workforce	➢ Ensure the feasibility and effects of a motivational plan based on a reward system.	➢ **Cultural disruption** could occur upon acquisition.		
Legal	Current Model	➢ Revision of key contracts, namely with suppliers and store lease providers. ➢ Analyse MdM's tax strategy and take necessary steps to building a revised one if necessary. Especially important for the internationalization process.	➢ Identify **past litigations** and assess their **frequency**. ➢ Verbal agreements with key customers or suppliers, which are not subject to contract but should be.	CMS Law.Tax	
	Expansion	➢ Ensure legal procedures and requirements concerning MdM's **entry** in Poland and Canada. ➢ Ensure the new **data analytics strategy** practices are in line with **data privacy** regulations.	➢ Potential risks arising from **overseas suppliers** (Asia). ➢ **Heavy fines** in case of non-compliance.	KIRKLAND & ELLIS	
Valuation	MdM	➢ Test the **goodwill** from Rhinov, Modani and Menina Design against possible impairment expenses. ➢ Test the comparability and details of peers.	➢ Identified comparables could lead to a mislaeading valuation if further Diligence is not performed.	L.E.K.	
	Exit	➢ Perform further detailed **unbiased valuation** and revise inherent assumptions. ➢ Identify/ Contact potential large investors with a portfolio where MdM fits to reduce exit risk.	➢ There are few strategic acquirers with the **financial ability** to acquire MdM, which poses a substantial risk. A list of interested buyers should be ensured beforehand.		

Throughout this project, my knowledge across each specific stage of a leveraged buy out was enhanced. It became clear how a fund, as a money driven company, can at the same time positively impact the society with a sound and conscious investment thesis. I end up perceiving the investment process as being a clock that requires all of its parts to fit in properly so that it performs well and timely achieve the desired outcomes at each stage of the process . Maisons du Monde was the prove of so, as a retailer with physical and online presence across several geographies, the alignment with the management team and with all stakeholders influencing the company's daily operations was crucial for the theoretical blueprint to yield good results.

Omnichannel

The uncertainty caused by the pandemic, was a perfect example of how business model transformation was an optimal approach in comparison to that of scaling back operations allowing MdM to remain as a leader in its specific segment of the furniture & decoration industry. Even though stores were partially closed throughout 2020 and rent costs could not be avoided, the company managed to leverage its supply chain and focus on the online side of its operations to remain profitable. MdM ability to reshape its operating model to this disruptive environment gave them a competitive advantage since e-Commerce levels are not expected to drop to pre-pandemic ones.

B2B

The overall importance of B2B in the industry was a novelty for me. The volume and value inherent to each transaction has the power to positively disrupt the financial performance of a company. In this sense, the opportunity arising from this business segment was considered in every step of our investment thesis since it is a growth source both organically and inorganically. For example, our strategic acquisition of Menina Design had in mind the possibility of targeting high end B2B custmers, such as luxury hotels and restaurants e.g., which due to the volume of the transactions would only be able to attain such production scale by leveraging MdM's current suppliers and distribution chain.

The ability to diversify its revenue stream and have a flexible supply chain was the key factor that allows the firm to remain profitable and competitive throughout this period, where the market consolidation trend was present and where we saw major competitors such as Conforama (French biggest player after Ikea) be acquired due to its financial constraints.

Finally, I had the chance to see In practical terms how company departments are interdependent, meaning it is worthless to have a top-notch online platform, if we then fail to integrate the IT systems and marketing to get the best out of that tool.